

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 SP-03 AID-20 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 PA-04 PRS-01 USIA-15 DRC-01 /174 W

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R 101930Z MAY 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 0043

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EO 11652: N/A

TAGS: ECON, EFIN, PE

SUBJECT: CONVERSATION WITH IBRD TEAM IN PERU

1. EMBASSY OFFICERS MET MAY 8 WITH DR. JOSE GUERRA, LEADER OF THE IBRD TEAM CURRENTLY IN PERU DRAFTING THE BANK'S ANNUAL REPORT ON THE PERUVIAN ECONOMY IN PREPARATION FOR THE IBRD CONSULTATIVE GROUP MEETING ON PERU. THE TEAM IS EXPERIENCING DIFFICULTY IN SECURING INFORMATION BECAUSE OF A GENERAL STATISITCAL DISARRAY WITHIN THE GOVERNMENT, ESPECIALLY THE MINISTRY OF ECONOMY AND FINANCE. IN ADDITION, THE GOVERNMENT, INSTEAD OF PREPARING A 5 YEAR PLAN WITH TWO BIENNIAL BUDGETS (AND ONE YEARS'S BUDGET LEFT UNDETERMINED) AS IN THE PAST, HAS DECIDED TO PREPARE A 4-YEAR PLAN WITH TWO BIENNIAL BUDGETS. THE GUIDELINES FOR THE 1975-1978 PLAN WILL NOT BE COMPLETED UNTIL JUNE, AND THE DRAFT PLAN WILL PROBABLY NOT BE READY UNTIL SEPTEMBER, REPRESENTING SLIPPAGE OF AT LEAST ONE MONTH. BECAUSE OF THIS, THE IBRD MISSION WILL HAVE TO SPEND MORE TIME IN PERU IN THE COMING MONTHS THAN ORIGINALLY EXPECTED. IN ADDITION, THE CONSULTATIVE GROUP MEETING, WHICH HAD ALREADY BEEN POSTPONED FROM SEPTEMBER TO NOVEMBER, MIGHT BE POSTPONED FURTHER.

2. DR. GUERRA MENTIONED THAT AMONG THE CURRENT PROBLEMS FACING PERU

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ARE (1) ITS HIGH DEBT LEVEL, (2) ITS BALANCE-OF-PAYMENTS POSITION,

CONSIDERABLY WEAKENED BECAUSE OF INCREASED PETROLEUM AND FOOD, ESPECIALLY WHEAT, PRICES, (3) THE FACT THAT ALTHOUGH 1973-1974 WAS SUPPOSED TO REPRESENT A PERIOD OF MAXIMUM DEBT SERVICING PAYMENTS, OWING TO SHORT-TERM REFINANCING DEBT SERVICING PAYMENTS WILL CONTINUE TO RISE THROUGH 1978, (4) THE LACK OF SUFFICIENT REVENUE SOURCES FOR BUDGETARY PROGRAMS (ESPECIALLY FOOD AND PETROLEUM SUBSIDIES), (5) FURTHER DEBT REFINANCING NEEDS (ESPECIALLY DIFFICULT WITH CURRENT HIGH INTEREST RATES), AND (6) INSUFFICIENT LIQUIDITY IN FOREIGN EXCHANGE TO COVER IMPORT REQUIREMENTS. DR. GUERRA ADDED THAT PERU NEEDS AN IMMEDIATE INFLUX OF CAPITAL FOR PROJECTS WHICH CAN BE PRODUCTIVE IN THE SHORT TERM. HE MENTIONED PROJECTS RELATING TO FISH FOR HUMAN CONSUMPTION, GRAIN STORAGE FACILITIES, AND POSSIBLY EX-IM BANK CREDITS FOR PROJECTS WHICH ARE HAVING TROUBLE OBTAINING FINANCING (SPECIFICALLY THE PROJECTED CATERPILLAR TRACTOR PLANT),

3. COMMENT. ALTHOUGH THE SITUATION AS RELATED BY DR. GUERRA DOES NOT YET APPEAR TO BE SERIOUS, IT IS CLEAR THAT HE REGARDS PERU'S ECONOMIC CONDITION TO HAVE DETERIORATED SINCE MAY 10, 1973, WHEN THE BANK'S LAST REPORT WAS ISSUED. IT IS ALSO CLEAR THAT ANY ASSISTANCE THE UNITED STATES COULD PROVIDE, SUCH AS THE RECENT GRANTING OF \$15 MILLION OF CCC CREDITS, WOULD BE RECEIVED MOST GRATEFULLY BY PERU AND WOULD CONTRIBUTE TO ECONOMIC STABILITY HERE.
DEAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, ECONOMIC CONDITIONS, VISITS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA03701
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740115-0670
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740558/aaaabzknk.tel
Line Count: 84
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 19 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 SEP 2002 by rowelle0>; APPROVED <10 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CONVERSATION WITH IBRD TEAM IN PERU
TAGS: ECON, EFIN, PE, IBRD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005